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Corzine Firm's Final Struggles

By [MIKE SPECTOR](#), [AARON LUCCHETTI](#) and [LIAM PLEVEN](#)

"I don't want to speculate," MF Global Holdings Ltd. Chairman and Chief Executive Jon S. Corzine said Oct. 25 when asked by an analyst what would happen if the securities firm's credit rating was cut to lowly "junk" status.

But it was too late. The run on the company had already begun.

Erez Kreitner, a trader of precious metals, copper and stock futures in New York who has an account at MF Global, was unnerved by the company's big quarterly loss and its \$6.3 billion exposure to European sovereign debt—a shaky bet masterminded by Mr. Corzine himself.



Agence France-Presse/Getty Images

CEO Jon S. Corzine resigned Friday, saying he feels 'great sadness for what has transpired at MF Global.'

MF Global's efforts to reassure investors "just smelled like Lehman," Mr. Kreitner recalls. He yanked \$160,000, more than half of his account balance, out of MF Global.

Over the next several days, doubts about the company's financial stability spiraled into an epidemic that forced MF Global into bankruptcy, cost Mr. Corzine his job and froze the accounts of more than 150,000 customers who did business with the securities firm.

The 64-year-old Mr. Corzine, a former New Jersey governor and [Goldman Sachs Group Inc.](#) chairman, resigned Friday, saying he feels "great sadness for what has transpired at MF Global and the impact it has had on the firm's clients, employees and many others."

In a statement, Mr. Corzine said he would help the company "respond to regulatory inquiries and issues related to the disposition of the firm's assets." He and other officials at MF Global are facing a cascade of investigations by regulators, law-enforcement officials and the trustee winding down the company's failed brokerage unit. Mr. Corzine said he would forgo a \$12.1 million severance payment.

Mr. Corzine hasn't responded to questions about whether MF Global improperly diverted customer funds as it was desperately trying to save itself.

As customers fled and trading partners demanded more collateral to cushion themselves from the risks of doing

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business with MF Global, the securities firm frantically sold about \$27 billion in assets, but it had to come up with even more money to meet obligations from other trading partners, according to people familiar with the situation.

Amid the chaos, there was a shortfall in the figures spit out by computers showing balances in customer accounts—money that was supposed to remain separate from the firm's. Investigators are still trying to track down the money, estimated at about \$600 million.



MF Global found out in recent days that about \$659 million of its customer segregated accounts resided in an account at J.P. Morgan Chase. Colin Barr has details on The News Hub.

MF Global is the largest Wall Street firm to collapse since Lehman Brothers Holdings Inc. in September 2008 and the first major U.S. casualty of Europe's debt woes. While MF Global's bankruptcy, the eighth-largest in U.S. history, didn't cause a rerun of the panic unleashed by Lehman, the mess shows how quickly confidence can evaporate, especially in the wake of the financial crisis.

"When a broker-dealer has a liquidity run, there is very little that can be done," said one person involved in efforts to rescue MF Global. "It's the same horror movie every time."

At MF Global, the run on the bank included independent traders, hedge funds and other customers who feared losing their money. When rating firms cut the company to non-investment-grade status, it triggered clauses in derivatives-trading contracts that cost MF Global large sums in additional collateral.

As the company dumped assets, shrinking itself by about half, banks such as J.P. Morgan Chase & Co.—responsible for moving money from the buyers to MF Global—didn't send along the sale proceeds promptly, making it harder for MF Global to ease the cash crunch, according to people familiar with the matter.

Executives believed the company was owed about \$2 billion in cash and other assets by J.P. Morgan less than 24 hours before Monday's bankruptcy filing, these people say. About \$659 million of that was MF Global customer money that resided in a J.P. Morgan account, according to a person familiar with the matter.

It is unclear whether the money at J.P. Morgan is directly tied to about \$600 million regulators say is missing from MF Global customer accounts. A J.P. Morgan spokeswoman said Friday the bank has been working with regulators and bankruptcy authorities, has been "wholly transparent to MF Global," and has no information about whether the funds it has relate to missing customer money.

While regulators were worried about the run on the firm and hoped a rescuer would swoop in, they were willing to let it fail. MF Global was no Lehman, they decided.

Several months after Mr. Corzine's March 2010 arrival at MF Global, he started making big bets on bonds issued by European countries, convinced they were a bargain.

In August, regulators released data showing that they had required MF Global's U.S. brokerage unit to set aside more capital against potential losses on the European trades. Mr. Corzine plugged the hole by pulling money from other parts of MF Global, people familiar with the situation say.

On Oct. 25, MF Global announced a \$191.6 million quarterly loss. Mr. Corzine said the trades "have relatively little underlying principal risk," and that he expected to "deliver for shareholders in the quarters ahead."

By the next day, the mood was tense inside the company's midtown Manhattan headquarters. J. Christopher Flowers, the private-equity investor who encouraged Mr. Corzine to take the top job at MF Global, began popping in and out every few hours.

Mr. Corzine was in frequent contact with lawyer H. Rodgin Cohen, a Sullivan & Cromwell LLP partner. Mr.

Corzine hired investment banker Jane Gladstone of Evercore Partners Inc. to find a buyer for the firm.

On Oct. 27, Moody's Investors Service and Fitch Ratings downgraded MF Global to junk status.

Robert Blevins decided to liquidate the natural-gas-futures trades his firm, Texican Natural Gas Co., placed with MF Global, moving those bets to other firms. The rating cuts looked like the "death knell" for MF Global, he says.

Longtime trading partners backed away from MF Global, threatening MF Global's short-term funding. Auditors from the Commodity Futures Trading Commission demanded documentation of the securities firm's customer funds, and a Securities and Exchange Commission official roamed the hallways.

MF Global traders raced to unload securities. At about 6:30 a.m. on Friday, Oct. 28, Andrew Dietderich, another Sullivan & Cromwell partner, concluded that MF Global might not survive the weekend. From a Starbucks in Brooklyn, N.Y., he called Ken Ziman, a bankruptcy lawyer at Skadden, Arps, Slate, Meagher & Flom.

At 9 a.m., lawyers and MF Global executives started going through the company's finances. Evercore's Ms. Gladstone reached out to potential rescuers. Skadden lawyers in Chicago began drafting documents for a bankruptcy-court filing.

Mr. Corzine tried to sell all of the company's remaining bond positions, including its \$6.3 billion European sovereign debt portfolio, which would have boosted the firm's liquidity and made it more attractive to a buyer. People who saw him that day say he looked forlorn and exhausted, yet was "all business" and "focused."

Last Sunday afternoon, Thomas Peterffy, chairman and chief executive of Interactive Brokers Group Inc., tentatively agreed to lend MF Global \$800 million, provided it filed for bankruptcy protection by the next morning. The infusion would keep the company afloat while it tried to sell itself. Under the plan, Mr. Peterffy would make a \$1 billion bid for MF Global in its bankruptcy proceedings.

At about 8 p.m., MF Global directors approved the deal. Regulators signed off, and MF Global drafted a press release.

That night, investor Carl Icahn offered to buy MF Global's European sovereign bonds, but they couldn't reach a deal. Mr. Corzine soon was resigned to being stuck with the bonds.

A big problem remained: The discrepancy in customer accounts.

At about 11 p.m. Sunday, Ms. Gladstone called Mr. Peterffy to report the discrepancy. Interactive Brokers would have to agree to absorb the discrepancy, no matter how big it turned out to be. Mr. Peterffy refused, and the deal fell apart.

Regulators approved the Chapter 11 bankruptcy filing, which was made shortly after 10 a.m. Monday.

—Justin Baer, Jean Eaglesham and Gina Chon
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